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**MOODY'S DOWNGRADES SOLUTIA'S SENIOR UNSECURED DEBT RATINGS TO Ba1.**

1,259 words

4 February 2002

Moody's Investor Service Press Release

English

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Approximately \$800 Million of Debt Securities Affected.

**Moody's Investors Service**

**Moody's** Investors Service has lowered the long-term debt ratings on the notes and debentures of **Solutia** Inc. to Ba1 from Baa3 and lowered the company's commercial paper rating to Not Prime from Prime-3. In addition, **Moody's** assigned a Ba1 senior implied rating and a Ba1 senior unsecured Issuer rating. These actions conclude the review initiated on November 16, 2001, due to concerns over the company's ability to return debt to appropriate levels and the potential for subordination of senior unsecured bondholders to the company's new secured credit facility. The downgrade reflects the company's high debt level and limited ability to improve its credit profile in the current economic environment.

## Ratings downgraded:

**Solutia** Inc. - senior unsecured notes and debentures to Ba1 from Baa3; commercial paper to Not Prime from Prime-3; universal shelf (senior unsecured to (P)Ba1 from (P)Baa3); secured credit facility to Baa3 from Baa2.

**Solutia** Europe SA/NV - guaranteed senior unsecured Euro notes to Ba1 from Baa3.

**Solutia** Services International SA/NV - guaranteed commercial paper to Not Prime from Prime-3

## Ratings assigned:

**Solutia** Inc. - senior implied issuer rating at Ba1; issuer rating at Ba1.

**Solutia's** debt remains well above anticipated levels due to the weak economic environment and limited ability to sell non-core assets subsequent to the Vianova acquisition in 1999 and two smaller acquisitions in 2000. The recently announced sale of **Solutia's** 50% interest in the AES joint venture and the prospect for substantially lower feedstock costs throughout 2002, should modestly improve the credit profile. However, **Moody's** believes that it will take **Solutia** a year or two to return debt protection measurements to levels that would fully support an investment grade rating. **Moody's** believes that the US industrial economy will remain weak throughout 2002.

**Solutia's** Ba1 ratings reflect the company's above average business and technology portfolio, which includes Saflex brand safety glass, a broad portfolio of coating resins and additives, and several premium industrial lubricants and fluids. In addition, several businesses, especially in the performance films segment, will likely generate significant revenue growth and enhance margins over the longer term. The company's rating outlook is stable, due to **Moody's** belief that the company will remain cash flow positive in 2002. If the company can significantly increase free cash flow and reduce debt below \$900 million, **Moody's** would reconsider the appropriateness of an investment grade rating. In the unlikely event that debt would rise above \$1.5 billion in the near-term, **Moody's** may consider further negative rating actions.

Despite a significant investment in technology, **Solutia's** nylon business, which account for roughly 45% of the company's revenue, has experienced a substantial decline in profits over the last three years. Although a large portion of this decline is attributable to raw material prices, **Moody's** believes that volumes and prices will continue to be negatively impacted by production volumes and price pressure in the automotive and carpet markets.

The price pressure in the automotive market, mainly from the domestic US producers, is likely to reduce profitability in the performance films segment as well. In addition, aggressive competition in these markets has limited **Solutia's** ability to raise prices in 2000 and 2001, in response to substantially higher raw material costs. **Moody's** believes that these factors, taken

together, are likely to impede the company's efforts to increase profitability and cash flow.

**Solutia's** credit facility was modified in December to grant banks security in working capital and domestic assets, as well as guarantees from international subsidiaries. **Solutia** currently it has roughly \$500 million outstanding under this facility, however the company has announced potential changes to its debt structure.

Aside from these business issues, **Moody's** is concerned that the company may experience a significant increase in the number of individuals claiming damage from exposure to polychlorinated biphenyls near their Anniston, AL plant. While the existing scientific data does not indicate that there is a systemic illness related to exposure to polychlorinated biphenyls, the tort litigation process in the US creates significant uncertainty regarding future expenses related to this issue.

Headquartered in St. Louis Missouri, **Solutia Inc.** is an integrated chemical and fibers company with primary business positions in nylon-based products, intermediates, acrylic fibers, Saflex brand safety glass, coating additives and resins, and industrial fluids and lubricants. **Solutia** reported sales of \$2.8 billion in 2001.

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Document moodpr0020020206dy2400001

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